

STATE OF VERMONT
PUBLIC SERVICE BOARD

Docket No. 7677

Petition of Vermont Transco LLC for Consent to)
Issue and Sell an Aggregate of up to \$63.6 Million in)
Class A and Class B Units of Equity, Approval of)
Certain Amendments to its Operating Agreement, and)
Consent to the Issuance of Certain Short-term)
Evidences of Indebtedness)

Order entered: 11/18/2010

I. INTRODUCTION

On October 13, 2010, Vermont Transco LLC ("Transco" or the "Company") filed a petition (the "Petition") with the Vermont Public Service Board ("Board") seeking approval pursuant to 30 V.S.A. § 108 for the issuance and sale to Vermont distribution utilities of up to \$63.6 million of Transco's Class A and Class B Units (collectively "Units"), at a price of \$10 per Unit and otherwise on the terms provided in Transco's Operating Agreement. The Units are to be offered in two parts: (a) \$37.1 million to Vermont distribution utilities based upon the utilities' "Transmission Costs Share," and (b) \$26.5 million to Central Vermont Public Service Corporation ("CVPS"), Green Mountain Power Corporation ("GMP"), and the Village of Lyndonville Electric Department ("LED") as specific-facility equity. The capital raised from the issuance will be used to fund Transco's ongoing system reliability and system enhancement projects. Associated with the new equity issuance, Transco also seeks approval of certain amendments to its Operating Agreement to reflect equity allocations based upon its members' "Transmission Costs Share," as opposed to the previous "Load Ratio" share method. Lastly, Transco requests approval of a short-term credit revolver facility in the amount of \$140 million for a term of up to three years. The Petition was supported by the testimony of Christopher L. Dutton, President and Chief Executive Officer for Vermont Electric Power Company, Inc. ("VELCO"), and by accompanying exhibits.

On October 29, 2010, the Vermont Department of Public Service ("DPS") filed its Determination Under 30 V.S.A. §202(f) finding that the issuance of equity units, the proposed amendments to the Operating Agreement, and the issuance of certain short-term indebtedness, all as set forth in the Petition, are consistent with the *Vermont Electric Plan* pursuant to 30 V.S.A. § 202(f). In a separate filing also submitted on October 29, the DPS recommends that the Board approve the Petition without hearing.

I have reviewed the Petition, the supporting testimony, and accompanying documents. I conclude that approval of Transco's Petition pursuant to 30 V.S.A. § 108 is appropriate and that such approval may occur without hearing. Based upon the evidence of record and the testimony and exhibits presented in this docket, and the DPS letters of October 29, 2010, I hereby report the following findings and conclusion to the Board in accordance with 30 V.S.A. § 8.

II. FINDINGS

1. Transco is a Vermont limited liability company subject to the jurisdiction of the Board pursuant to 30 V.S.A. § 203. Petition at 1.

New Equity Issuance

2. Transco requests that the Board approve and authorize the issuance and sale to Vermont distribution utilities of up to \$63.6 million of the Company's Class A Units and Class B Units, at a price of \$10 per Unit and otherwise on the terms provided in Transco's Operating Agreement. Transco intends to offer \$37.1 million of the Units to the Vermont distribution utilities on a Transmission Costs Share basis, as that term is defined in the Company's Operating Agreement, with the remainder of the issuance in the amount of \$26.5 million to be offered to CVPS, GMP and LED to assist those utilities in paying their specific-facility charges under the 1991 Vermont Transmission Agreement. With respect to the \$37.1 million offering, should a distribution utility choose not to invest or purchase its full allotment, the unsubscribed Units will be made available to the other Vermont distribution utilities on the Transmission Costs Share basis, in accordance with Transco's customary oversubscription practices. Oversubscription rights do not apply in the specific-facility equity offered to CVPS, GMP, and LED. Petition at 1-2; Dutton pf. at 3, 9.

3. The new issuance will result in Transco slightly exceeding the 50% target that Transco has set for the equity component of its capital structure. Specifically, Transco's capital structure prior to the issuance of the Units is comprised of 48.19% debt and 51.81% equity. The capital structure on a post-issuance basis will be 46.27% debt and 53.73% equity. By comparison, the range of equity as a percentage of total capital among transmission operators in New England is between 50% and 69%. Dutton pf. at 3, 7-8; exh. TRANSCO CLD-5.

4. Transco proposes to use the capital raised from the issuance, in conjunction with its line of credit and other debt, to fund its ongoing system reliability and system enhancement projects. The Company anticipates capital expenditures in excess of \$148 million in 2010 and \$123 million in 2011. Dutton pf. at 8; exh. TRANSCO CLD-4.

5. Transco estimates that the issuance will provide an annual benefit to Vermont ratepayers in the approximate amount of \$1.387 million. Transco bases this estimate on two calculations. First, the weighted average return for investors is projected to be approximately 11.78%, or \$7.492 million annually (average of Class A Units earning 11.5% and Class B Units earning 13.3%). Assuming the investors have a cost of debt of 6%, annual interest expense would be \$3.816 million, leaving a net annual return of 5.78% or \$3.676 million. Second, the return paid to Unit investors by Transco, including income tax distributions paid on Class A Units held by taxable investors, will increase Transco's revenue requirement by \$11.466 million annually. Of this increase, approximately 80%, or \$9.157 million, would be recoverable from the Independent System Operator-New England, Inc. ("ISO-NE") leaving 20%, or \$2.289 million, to be paid by Vermont distribution utilities. The projected net return of \$3.676 million will be partially offset by the increase in transmission charges of \$2.289 million resulting in the estimated annual net benefit to Vermont distribution utilities and their ratepayers of \$1.387 million. Dutton pf. at 5; exh. TRANSCO CLD-3.

6. Transco estimates that Vermont distribution utilities and ratepayers would not be as well off if Transco issued \$63.6 million in additional debt as opposed to additional equity. Assuming a 5% cost of long-term debt, Transco's annual incremental revenue requirement would be \$3.18 million (interest expense) with a substantial portion recoverable from ISO-NE although at a smaller recovery rate since Transco's capital structure would become more heavily weighted

towards debt. Transco projects, after assuming the same recovery rate of 80% or \$2.54 million, that the revenue requirement recoverable from the Vermont distribution utilities would be reduced from \$2.289 million to \$636,000 annually for a net savings of \$1.653 million. However, without the \$1.387 million in annual net benefit provided by the Class A and Class B units, taken together with the \$636,000 in transmission charges to the utilities, financing the \$63.6 million with debt would result in a net loss to Vermont distribution utilities and ratepayers of approximately \$2.023 million. Dutton pf. at 6; exh. TRANSCO CLD-3.

7. Transco proposes to issue the Units prior to December 31, 2010. The mechanics of the ISO-NE tariff allow for a return on equity which is recorded on Transco's books as of December 31 of each year. If Transco is unable to issue the Units prior to December 31, 2010, the Company will be unable to earn a return from ISO-NE on the incremental capital until after 2011. As a result, Vermont distribution utilities would be required to cover the entire cost of the return paid on equity during 2011. Dutton pf. at 7.

8. In addition to the requested \$63.6 million issuance, Transco will also offer, in December 2010, \$11.403 million of make-up equity as previously approved by the Board in Docket No. 7310, as well as \$1.15 million in specific-facility equity offered by Transco to the City of Burlington Electric Department ("BED") also approved in Docket No. 7310. Dutton pf. at 7-8.

Amendments to Transco's Operating Agreement

9. Transco proposes to offer the Class A and Class B Units on a "Transmission Costs Share" basis instead of a load-ratio share basis (subject to exceptions for specific-facility equity and make-up equity as provided in the Operating Agreement). Transco recently met with representatives of CVPS, GMP, BED, Town of Stowe Electric Department, Vermont Electric Cooperative, Inc., Washington Electric Cooperative, Inc., and the Vermont Public Power Supply Authority to discuss whether a load-ratio-share allocation of Transco's equity offerings was appropriate. The consensus from those discussions was that equity allocations should be based on share of transmission costs rather than network load in order to apportion benefits in a manner that more closely reflects the costs paid by each Vermont distribution utility. To effectuate this

change, Transco proposes to amend its Operating Agreement by deleting the terms "Load Ratio Share" and "Network Load" and replacing those terms with the defined terms "Transmission Costs" and "Transmission Costs Share."¹ Dutton pf. at 4; exh. TRANSCO CLD-2.

10. Transco also proposes to amend Section 3.3 of the Operating Agreement governing "Additional Capital Contributions." This amendment will clarify that offerings involving specific-facility units will not be subject to any oversubscription rights, either among the specific-facility offerees or among any other Vermont distribution utilities. Dutton pf. at 5; exh. TRANSCO CLD-2.

Short-term Credit Facility

11. Transco requests Board approval to issue up to \$140 million under a short-term credit facility having a term of either 364 days or three years. Historically, Transco has funded its short-term capital needs with a 364-day credit facility which requires an annual credit and pricing review by the lender. Transco prefers converting to a facility with a three-year term since such a facility would offer Transco the opportunity to secure firm pricing and credit availability over the longer three-year period. However, because the lender would be committing to a longer term, Transco estimates that the pricing is likely to be 25-30 basis points higher on a three-year facility than a 364-day facility. Accordingly, Transco requests authorization to negotiate a three-year credit facility while simultaneously negotiating the terms of a 364-day facility. Transco favors an interest rate not to exceed the overnight London Interbank Offered Rate ("LIBOR") plus 300

1. The amended Operating Agreement defines "Transmission Costs" as " . . . the sum of: (i) all charges by the Company to the Vermont Distribution Utilities or their agents under the 1991 Transmission Agreement except the specific facility charges; (ii) all ISO-New England charges by ISO-New England to the Vermont Distribution Utilities or their agents under the ISO-New England Open Access Transmission Tariff, Schedules 1 and 9; and (iii) all charges by ISO-New England to the Vermont Distribution Utilities or their agents under the ISO-New England Self Funding Tariff, Schedule 1, as each may be amended and in effect from time to time." "Transmission Costs Share" is defined as " . . . the ratio of: (i) the Transmission Costs charged by the Company and ISO-New England to such Vermont Distribution Utility or its agent for the two calendar years most recently proceeding the date on which such Transmission Costs Share is being determined; to (ii) the sum of the Transmission Costs charged to all Vermont Distribution Utilities or their agents for such two calendar years. For purposes of illustration only, the Transmission Costs Share of a Vermont Distribution Utility for an equity offering closing effective December 31, 2010, would be determined by dividing the Vermont Distribution Utility's Transmission Costs for the calendar years 2008 and 2009, by the Transmission Costs for all Vermont Distribution Utilities for the calendar years 2008 and 2009." Exh. TRANSCO CLD-2 at 10-11.

basis points or Prime Rate floating. Transco will select the best short-term financing package offered to it. Transco anticipates that its total annual short-term indebtedness payable within one year would be maintained below 20 percent of Transco's total assets which is the statutory threshold value which Board approval is required pursuant to 30 V.S.A. § 108. Dutton pf. at 11.

III. DISCUSSION & CONCLUSION

Based upon the foregoing and the evidence in the record, I find that the issuance by Transco of up to \$63.6 million in Class A and Class B Units, Transco's proposed amendments to its Operating Agreement, and the issuance of a short-term credit revolver facility in the amount of \$140 million, all as described in the Petition, will be consistent with the general good of the State and I therefore recommend that the Board issue an order to that effect. The proposed equity funding will allow Transco to achieve and maintain its target capital structure of 50% debt and 50% equity. It will also provide Vermont ratepayers with a positive net annual benefit estimated at \$1.387 million, as opposed to an increase in costs from the issuance of debt since the incremental revenue requirement recoverable from ISO-NE is substantially higher for equity issuance. Lastly, the funding provided by the Units, and the renegotiated credit facility, will allow Transco to continue to maintain a reliable electric power transmission system.

The parties have waived their rights to file exceptions and present arguments under 3 V.S.A. § 811. Therefore, the proposal for decision has not been served on the parties.

Dated at Montpelier, Vermont this 10th day of November, 2010.

s/ Jay E. Dudley
Jay E. Dudley
Hearing Officer

IV. ORDER

IT IS HEREBY ORDERED, ADJUDGED AND DECREED by the Public Service Board of the State of Vermont that:

1. The findings, conclusion and recommendation of the Hearing Officer are adopted.
2. The issuance and sale of up to \$63.6 million of Class A and Class B Units, the proposed amendments to the Operating Agreement, and the issuance of a short-term credit revolver facility in an amount not to exceed \$140 million for a term of either 364 days or three years, all as set forth in Vermont Transco LLC's ("Transco" or the "Company") Petition in this docket and as described in the Findings are consistent with the general good of the State of Vermont.
3. Pursuant to 30 V.S.A. § 108, consent is hereby given to Transco to issue up to \$63.6 million of Transco's Class A and Class B Units at a price of \$10 per Unit and otherwise on the terms provided in Transco's Operating Agreement, and to issue short-term indebtedness in an amount not to exceed \$140 million for a term of either 364 days or three years, as described in the Findings above.
4. Consent is hereby given to Transco to amend its Operating Agreement in accordance with the proposed amendments described in the Findings.
5. This Order does not constitute approval of Transco's capital structure or of any particular capital or operating expenditure that may be implemented with the proceeds from the issuance of the Class A and Class B Units, or the issuance of short-term indebtedness, contemplated in the Petition in this docket. Nothing in this approval shall preclude the Vermont Department of Public Service ("DPS") or any other party, or the Vermont Public Service Board ("Board"), from reviewing or challenging such expenditures or Transco's resulting capital structure.
6. Transco shall inform the Board and the DPS of any material change in the terms and conditions of the proposed stock issuance and short-term indebtedness.
7. Transco shall provide the Board and the DPS with a copy of the final issuance of Class A and Class B Units within 30 days of completion of the issuance.

Dated at Montpelier, Vermont, this 18th day of November, 2010.

<u>s/ James Volz</u>)	
)	PUBLIC SERVICE
)	
<u>s/ David C. Coen</u>)	BOARD
)	
)	OF VERMONT
<u>s/ John D. Burke</u>)	

OFFICE OF THE CLERK

FILED: November 18, 2010

ATTEST: s/ Susan M. Hudson
Clerk of the Board

Notice to Readers: This decision is subject to revision of technical errors. Readers are requested to notify the Clerk of the Board (by e-mail, telephone, or in writing) of any apparent errors, in order that any necessary corrections may be made. (E-mail address: psb.clerk@state.vt.us)

Appeal of this decision to the Supreme Court of Vermont must be filed with the Clerk of the Board within thirty days. Appeal will not stay the effect of this Order, absent further Order by this Board or appropriate action by the Supreme Court of Vermont. Motions for reconsideration or stay, if any, must be filed with the Clerk of the Board within ten days of the date of this decision and order.